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# A Chinese company's investment strategy in South Africa: the case of Hisense

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## Abstract

*Hisense, a Chinese home appliance manufacturer, entered South Africa's TV market in 1996 and the company has since expanded its operations. Now Hisense is one of the major players in the TV market in South Africa. The company's success can be measured through a mix of the four P's of marketing: price, product, promotion and place (distribution). The successful combination of strategies helped Hisense penetrate South Africa's TV market and acquire a growing market share. As a result, Hisense has contributed to export-led economic growth, technology transfer and job creation, among other development-related benefits to the host country. However, at the same time Hisense has faced challenges including problems with labour relations, e.g. poor working conditions and violations of minimum wage regulations. Most of these problems are recurring issues. This shows that overcoming these challenges is not an easy task for Chinese investors operating in South Africa or elsewhere in Africa, and questions remain regarding whether Chinese investment can contribute to fostering Africa's industrialisation as well as China's soft power.*

## Zusammenfassung

Der chinesische Haushaltsgerätehersteller Hisense betrat 1996 den südafrikanischen Markt für Fernsehgeräte und hat dort seitdem seine Operationen beständig ausgedehnt. Heute ist Hisense eines der größeren Unternehmen auf dem Markt für Fernsehgeräte in Südafrika. Der Erfolg des Unternehmens kann hinsichtlich der vier Marketingelemente beschrieben werden: Preis, Produkt, Werbung und Standort(verteilung). Eine erfolgreiche Kombination aus verschiedenen Strategien verhalf Hisense dazu, den südafrikanischen TV-Geräte-Markt zu durchdringen und einen wachsenden Marktanteil zu erlangen. Im Ergebnis hat Hisense, neben anderen entwicklungsbezogenen Vorteilen für das Gastland, zu exportbedingtem Wirtschaftswachstum, Technologietransfer und der Schaffung von Arbeitsplätzen beigetragen. Zugleich hat Hisense jedoch auch mit Schwierigkeiten zu kämpfen, darunter mit Problemen bei den Arbeitgeber-Arbeitnehmer-Beziehungen, z.B. mit schlechten Arbeitsbedingungen und Verletzungen der Mindestlohnregelungen. Die meisten dieser Probleme sind dabei wiederholt aufgetreten. Es zeigt sich, dass die Überwindung dieser Schwierigkeiten keine einfache Aufgabe für chinesische Investoren in Südafrika oder anderswo in Afrika ist, und die Fragen, ob chinesische Investitionen zur Förderung der Industrialisierung in Afrika wie auch der „soft power“ Chinas beitragen können, bleiben bestehen.

**Keywords** Chinese investment, South Africa, Hisense, four P's, labour

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## 1. Introduction and general framework

Industrialisation is believed to be the key to sustainable economic growth on the African continent, and the Chinese government believes its own experience can serve as a useful model for many African countries (Li 2014). Chinese investment in the manufacturing sector in Africa is expected to contribute to export-led economic growth, technology transfer and job creation, among other development-related benefits. In this regard, Hisense, a Chinese home appliance manufacturer in South Africa has become the spearhead of contributing to the host country's economy, and furthermore the expansion of China's soft power (Bräutigam and Tang 2011).

Hisense initially entered South Africa in 1996 following the establishment of diplomatic relations between China and South Africa. At that time, there was a growing potential for low-end products in the TV market targeting the urban low income households in South Africa; local production did not meet the growing demand in South Africa, and the country relied heavily on imports. In fact, South Africa was the second largest importer of TVs among non-OECD countries (Kimura 2013). This market potential is one of the significant elements that led to Hisense entering South Africa. Along with the expansion of the facility in 2013, Hisense has been successful in the South African electronic goods market becoming one of the major players in the TV market.

Hisense's success shows that it has the potential to help China achieve its aspiration of assisting in Africa's industrialization (Tian 2016). In fact, the company has contributed to rectifying the imbalance of trade between South Africa and China in the TV market. Since Hisense accelerated its production, South Africa's imports of TVs from all countries, including China, dropped in 2012. At the same time South Africa managed to increase its exports of television sets to all countries by 77 per cent from 2011 to 2012, resulting in South Africa exporting EUR 82 million's worth of television sets in 2012. This drop in imports and increase in exports has resulted in an improvement in South Africa's trade deficit in the TV market (Patel 2013).

The unprecedented support from both the Chinese and South African governments at national and local levels played a significant role in Hisense's success. Furthermore, the success of Hisense in South Africa is

based on a combination of its own competitiveness in the host country's market and its strategies. Nevertheless, several challenges that the company has faced are also identified. Chinese enterprises' industrial relations in African host countries have long been debated. Since Hisense is expected to set an example that other Chinese enterprises can follow, the problems in the current labour relations should be rectified urgently.

## 2. Methodology

The successful elements of the Chinese company Hisense in Africa will be analysed by means of a case study. The marketing mix or the four P's: price, product, promotion, and place (distribution) is a useful framework to assist in our understanding of how the company penetrated the TV market in South Africa. The mix identified by McCarthy has become a major conceptual framework for practitioners who wish to satisfy their target market (McCarthy 1978).

In addition to using the four P's, a series of interviews was conducted with various actors ranging from officials of the Metal and Engineering Industries Bargaining Council (MEIBC), which governs labour relations in the sector, the company manager and Hisense employees, especially the members of the National Union of Metalworkers of South Africa (NUMSA), which comprises one of the core parts of this research. The interviews were conducted in November 2013 and June/July 2014. Semi-structured interviews were chosen as a method to help with the understanding of how the company has contributed to the local community.

## 3. Hisense's strategies

a) Product: The possession of technological superiority

Hisense's technologies determined the success of the company in the first place. When Hisense entered the South African market, it did not possess strong technological superiority. However, the company had the advantages of enough knowledge and skill to penetrate the low-end sector of the market (Kimura 2013). Then the continuous progress of technology derived from severe competition in the home appliance industry in China through the Chinese government's liberal industrial policies, R&D efforts and OEM contracts led to the Chinese home electronics

industry including Hisense achieving international competitiveness (Gao et al. 2007). This helped Hisense improve its technology to compete and survive in the South African market by satisfying the rapidly growing number of middle class consumers.

b) Price: Catering for both the high-end and low-end markets

Hisense was at first dominant in the low-end market (about EUR 117) and did not target the high-end market consumers. Other Asian competitors such as Korea's Samsung and LG, and Japan's Sony held 70 per cent of the Liquid-crystal-display (LCD) market, the high-end market in South Africa. However, the situation seems to have been rapidly reversed by Hisense, which now holds a 17 per cent market share of the TV market. Hisense TV ranks second in the high-end market, following Samsung, Hisense has now taken the second position (in volume) which used be occupied by LG from South Korea (Interview Khan 2013).

c) Place: Effective use of local and regional distribution systems

Hisense has expanded its markets through the local and regional distribution systems. One of the successful factors of the Hisense operation is the use of local distributors that have a wide range of coverage. Hisense distributes its products through Massmart which owns outlets such as Game, Dion Wired and Makro – all major retail stores in South Africa which attract high and middle class customers (Interview Khan 2013). These retailers also have stores throughout the southern African region as well as in West African countries such as Nigeria and Ghana (Interview Khan 2013). This wide distribution channel helps Hisense exploit the other regional markets in Africa.

d) Promotion: Branding hard and soft power

Hisense has promoted its cutting-edge products through various marketing channels in South Africa. The Hisense marketing team including the Deputy General Manager, consists mostly of South Africans who are familiar with the potential consumers. The localisation of staff helps the company to expand by using media strategically. A local morning TV show has broadcast several clips on the Hisense operation.

Not only does the company highlight its high-quality products but also its good practice on these media platforms. Hisense did not initially have strong brand recognition; however, these platforms have helped the company overcome weak brand recognition in the South African market. Furthermore, the company has presented itself as a socially responsible enterprise.

As seen above, the four P's are applied during this research. This framework is useful when analysing a company's penetration into a new market. However, as we will see in the next section, it provides only limited help when we are trying to understand the implications of the company's operations such as labour relations. Labour relations have been pointed out as being one of the cons of multi-national companies from the early period (Fajana 1989). In China-Africa relations, Chinese actors' violations on minimum wages and working hours among other regulations have been pointed to as leading to aggression from the international and local communities.

#### 4. Results

The internationalisation of Chinese investment has been discussed together with its motivation and drivers among others (Bräutigam and Tang 2011). Nevertheless, most explore at state level and little attention has been paid to enterprise level and the consequent implications. Thus this research on a Chinese manufacturing company can identify opportunities and challenges and indicate what Chinese actors can bring about in Africa in a broader context.

In addition to rebalancing the trade deficit mentioned earlier, the company's successful expansion has contributed to the local economy of South Africa. Firstly, the company has led to technology transfer. Initially, the South African government promoted local industrialisation through various routes. By charging high tariffs on finished products, Hisense followed the FDI route rather than the export route (Kimura 2013). The company has moved on from assembling parts imported from China to currently producing the whole product in South Africa (Interview Khan 2013).

Secondly, it has contributed to job creation in the local community. Atlantis, where the company is located in the Western Cape Province, has long been a poverty-stricken area and has experienced unemployment and various social problems such as the

prevalence of drugs and alcohol abuse. Under the circumstances, providing employment opportunities can be seen as a way to revive the town. The company has directly hired more or less 500 workers to work in manufacturing. It is expected that more than 3,000 indirect jobs in advertisement and retail will be generated (Interview Khan 2013).

Despite the company's contribution to the local economy, there are still a number of problems regarding labour relations. Currently, Hisense workers get paid only half of the minimum wages (EUR 1 per hour instead of EUR 2 designated by the law). This issue was discussed between the company and the National Union of Metalworkers of South Africa (NUMSA) and it will be rectified by 2017 (Interview Hicks 2014; personal interview with a Metal and Engineering Industries Bargaining Council official 2014).

As a result of the company's success, the daily goal of production has doubled but the company does not hire more workers and the workers claim that Hisense misuses the internship programme. The South African government runs an internship programme the aim of which is to train the unemployed youth (South Africa Learnership Programmes 2015). However, according to the Hisense workers, they are dispatched directly instead of being trained (Personal interview with a Hisense worker 2014a). Also, the workers claim that they are not provided with safety equipment (Personal interview with a Hisense worker 2014b).

Hisense has definitely contributed to South Africa's local economy; however the decency of, workload and the rate for these jobs still remain questionable. It therefore seems that foreign investors' compliance with labour standards presents a challenge to the South African government. Robust systems for effective monitoring and enforcement are required. It should be noted that while the capital and technology originate from China and the top management is Chinese, the managers who are in immediate contact with local workers are South African. This is something that critics of Chinese investment in Africa and its linkage with "China" should consider.

## 5. Conclusion

The Chinese government has pushed forward industrialisation projects in Africa. These industrialisation projects have recently been reinvigorated

through a series of high-level Chinese leaders' visits. Hisense is a state-owned company and a strategic instrument with which the Chinese government can expand its soft power. The wide-ranging political support from the Chinese government seems to be working well with regard to Hisense's penetration in South Africa. Hisense has now positioned itself at the high-end of electronic producers while also dominating at the low-end of the market in South Africa. The company has promoted itself as a company that contributes to South Africa's socio-economy through job creation and technology transfer. Also it has South African local staff at managerial level who are knowledgeable regarding domestic as well as regional markets. They use the media strategically to promote their high-end products. All these strategies together make it possible for Chinese enterprises to operate successfully in South Africa and for the Chinese government's industrialisation project to achieve its political goal on the continent. However, the company, Hisense, still faces various labour-related issues which require further attention.

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